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7 BEFORE THE INSURANCE COMMISSIONER  
8 OF THE STATE OF WASHINGTON

9 In the Matter of the Application regarding the  
10 Conversion and Acquisition of Control of  
11 Premera Blue Cross and its Affiliates,

Docket No. G02-45

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13 **PREFILED TESTIMONY OF DENNIS G. McMILLIAN**

- 14 1. My name is Dennis McMillian. I am the President and Chief Executive Officer of  
15 the Foraker Group, located in Anchorage, Alaska. I served as the President and  
16 Chief Professional Officer (“CPO”) of the United Way of Anchorage from 1992  
17 to April 2003. I have spent fifteen years working on healthcare insurance  
18 alternatives for non-profit organizations. I also served as the National Consumer  
19 Chair for United Way of America in the operations of the United Way of  
20 America’s national healthcare plan.  
21 2. While I was still President and CPO of the United Way of Anchorage, I became  
22 aware of Premera Blue Cross’s plan to convert from non-profit insurer to a for-  
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1 profit insurer. Because of the potential that such a conversion would create a  
2 charitable foundation for Alaska and such a foundation could be of benefit done  
3 correctly to the health and welfare of its citizens, and since in many other states  
4 legislative bodies were successful in using proceeds from such a conversion for  
5 purposes other than the establishment of a foundation, the United Way decided to  
6 convene a group of community representatives to discuss the various ways that  
7 Alaskans could best respond to the proposed conversion. This community-wide  
8 group is known as the Blue Cross Blue Shield Conversion Task Force and  
9 consists of individuals and organizations such as the Foraker Group, Rasmuson  
10 Foundation, AARP, Alaska State Hospital and Nursing Home Association, Alaska  
11 Nurse Practitioner's Association, Alaska Mental Health Trust, Alaska Department  
12 of Health and Social Services, Representative Sharon Cissna, Denali Commission,  
13 McKinley Capital, Northrim Bank, United Way of Anchorage, University of  
14 Alaska, and Anchorage Neighborhood Health Center, among others. The Task  
15 Force's mission is to ensure that if the conversion happens, that Premera's assets  
16 distribution is fair to Alaskans; and 2) a nonprofit health care foundation is  
17 created to be operated for the benefit of Alaskans.

- 16 3. Neither the Foraker Group nor the United Way of Anchorage (while I was at its  
17 helm) have taken a position on whether Premera should be allowed to convert.  
18 Rather, our position is studied neutrality. The Foraker Group is still neutral, but  
19 based on our best information on how the transaction is to be structured, the  
20 foundation is not set up the way we envisioned, that is, in a fashion that we  
21 believe would be the best for the state of Alaska. We envision a foundation with  
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1 autonomy, one that is managed to maximize the value of the foundation's funds  
2 for the benefit of Alaskans.

- 3 4. For a number of reasons, the Alaska Health Foundation as proposed by Premera is  
4 not the most effective model for serving the needs of Alaskans. For instance,  
5 Premera has proposed that the Alaska Health Foundation be formed as a 501  
6 (c)(4) rather than a 501(c)(3) non-profit organization. We see no rational reason  
7 for seeking such a classification. Were Premera's proposal adopted it would mean  
8 that the Alaska Health Foundation could not receive tax-deductible donations  
9 from private donors, such as endowments which is an option we would like to see  
10 for its future. Moreover, such a 501(c)(4) foundation would likely not be eligible  
11 for certain government grants. In addition, if the foundation's Board of Directors  
12 were to become friendly to the health care industry, not to consumers, the Board  
13 could change the foundation's policies to become an advocacy group for the  
14 health care industry. This could not happen if the foundation were a 501 (c)(3)  
15 entity.
- 16 5. The proposed foundation is also objectionable because it does not require any  
17 community input into its Board member selection nor seek any community input  
18 for the selection of future Board members or the carrying out of the foundation's  
19 mission.
- 20 6. But there are other concerns with regard to how Premera has proposed setting up  
21 the Alaska foundation. The proposed foundation will not be independent of  
22 Premera or state government. For instance, the Form A documents demonstrate  
23 that Premera will be able to exercise control over the foundation by requiring the  
Alaska foundation's stock to be subject to a voting trust agreement.

- 1           7. In addition, Premera has set up unreasonable restrictions for potential Board  
2 members. For example, Premera has proposed that a Board member cannot be a  
3 member of the Board of Directors, officer, or an employee of any hospital  
4 association or medical association in Alaska or of any entity engaged in the  
5 business of providing health care coverage or a director or employee of a health-  
6 related public development authority. While we understand that Premera does  
7 have justification in restricting competitive providers from such a board, these  
8 restrictions as written will needlessly reduce the size of the pool of qualified and  
9 knowledgeable candidates.
- 10           8. The proposed Transfer, Loan and Guaranty Agreement also contains unreasonable  
11 restrictions as to whom the foundation might make grants to: all grant-making is  
12 restricted to 501 (c)(3) beneficiaries. Such a restriction could prohibit the  
13 foundation from collaborating with other organizations on healthcare related  
14 projects, such as health research and work done in rural Alaska with communities  
15 and tribes, such as tribal health aide programs.
- 16           9. I understand that Premera estimates that it will provide \$750 million in stock to  
17 the Washington and Alaska foundations. If Alaska's share is between 24 – 29.6 %  
18 as estimated by the Alaska Division of Insurance experts, then the Alaska  
19 foundation presumably would receive anywhere between \$ 180 million and \$222  
20 million dollars. I also understand that the Washington Office of Insurance  
21 Commissioner's experts disagree with the Alaska experts on what Alaska's share  
22 should be. I believe that, if the conversion is to be fair to Alaskans, Alaska should  
23 get its fair share of these assets.

10. I believe that a conversion that results in an Alaska foundation without an adequate revision of the above noted deficiencies is not in the best interests of Alaskans and should be rejected.

11. I may have additional comments to make as more information becomes available to me.

I declare under penalty of perjury of the laws of the State of Alaska that the foregoing is true and correct.

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Dennis McMillian